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Cotton and Products

Annual Report

2009

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Report Highlights:

Post forecasts significant increases in planted area, production and exports for cotton in 2009/10. Despite these forecast increases, all Post's forecasts are expected to remain under the ten year average. Post expects cotton production to continue increasing over the longer term as the anticipated return to more normal weather conditions continue to improve irrigation water supplies following years of drought.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Canberra [AS1]
[AS]

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SECTION ONE: SITUATION AND OUTLOOK**Summary**

At time of writing this report, the 2008/09 cotton harvest is around 50 percent complete. The 2009/10 cotton crop forecast in this report will likely be planted in October and November this year and will not be harvested until March and April next year.

Post forecasts significant increases in planted area, production and exports for cotton in 2009/10. A return to more normal weather conditions, following years of drought, are expected to see significant increases in planted area, production and exports.

Despite these forecast increases, all Post's forecasts are expected to remain under the ten-year-average. Long running and severe drought, which began in 2002/03, had greatly depleted irrigation water supplies and slashed cotton plantings to record low levels in recent times. Industry sources suggest that some reservoirs may take 10 to 14 years of normal rainfall to fully recharge.

Post's 2009/10 forecasts are somewhat conservative in comparison with ABARE's forecasts which have slightly higher forecast numbers. Post's 2009/10 forecast remains more reflective of industry expectations.

Perhaps the most difficult factor to gauge is the degree to which demand will recover from the current economic turmoil now being experienced. On this point, ABARE remains optimistic suggesting that recovering global demand will likely support cotton prices going forward. Industry sources remain less optimistic suggesting that price will not likely be a "big driver" for cotton production in 2009/10. Post believes that climatic conditions and irrigation water availability will primarily determine cotton area, production and exports.

Post expects cotton production to continue increasing over the longer term as the anticipated return to more normal weather conditions continues to improve irrigation water supplies following years of drought. ABARE has projected cotton production to increase steadily out to 2013/14.

The Western Australian (WA) State Government has lifted the moratorium on the commercial production of genetically modified (GM) cotton. This may lead to significant development for the Ord River Irrigation Area (ORIA) in the State's north.

SECTION TWO: STATISTICAL TABLES

PSD Table Cotton										
	2007			2008			2009			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		08/2007	08/2007		08/2008	08/2008		08/2009	08/2009	MM/YYYY
Area Planted	0	0	0	0	0	0			0	(1000 HA)
Area Harvested	65	65	65	164	164	164			220	(1000 HA)
Beginning Stocks	1,179	1,011	1,154	580	438	555			880	1000 480 lb. Bales
Production	620	620	620	1,400	1,400	1,450			1,900	1000 480 lb. Bales
Imports	0	0	0	0	0	0			0	1000 480 lb. Bales
MY Imports from U.S.	0	0	0	0	0	0			0	1000 480 lb. Bales
Total Supply	1,799	1,631	1,774	1,980	1,838	2,005			2,780	1000 480 lb. Bales
Exports	1,219	1,218	1,219	1,150	1,150	1,150			1,550	1000 480 lb. Bales
Use	50	50	50	50	50	50			50	1000 480 lb. Bales
Loss	-50	-75	-50	-75	-75	-75			-75	1000 480 lb. Bales
Total Dom. Cons.	0	-25	0	-25	-25	-25			-25	1000 480 lb. Bales
Ending Stocks	580	438	555	855	713	880			1,255	1000 480 lb. Bales
Total Distribution	1,799	1,631	1,774	1,980	1,838	2,005			2,780	1000 480 lb. Bales
Stock to Use %	46	35	44	71	59	73			78	(PERCENT)
Yield	2,077.	2,077.	2,077.	1,859.	1,859.	1,925.			1,880.	(KG/HA)

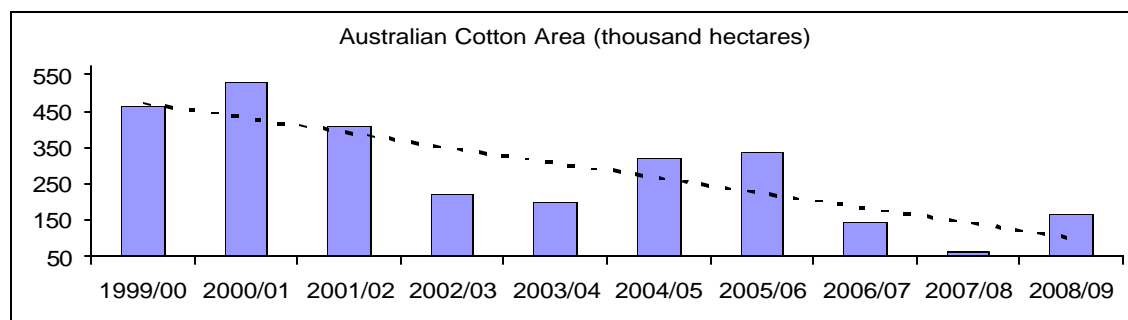
SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

Planted Area

Total area planted to cotton for 2009/10 is forecast to increase sharply to 220,000 hectares. An expected return to more normal weather conditions following prolonged and severe drought which began in 2002/03 is expected to increase the availability of irrigation water and in turn increase cotton plantings.

Recent ABARE reports state that cotton will likely be the most profitable crop in areas where it is traditionally grown due to improved export demand in 2009/10. ABARE has forecast cotton area at 255,000 hectares, however industry sources do not believe it likely that there will be insufficient irrigation water to sustain this forecast. Furthermore, sources believe that price will likely not be a big driver and remain concerned about cotton demand over the foreseeable future. Cotton plantings will likely continue to be at least partially constrained by competition for land and water from other crops in 2009/10.

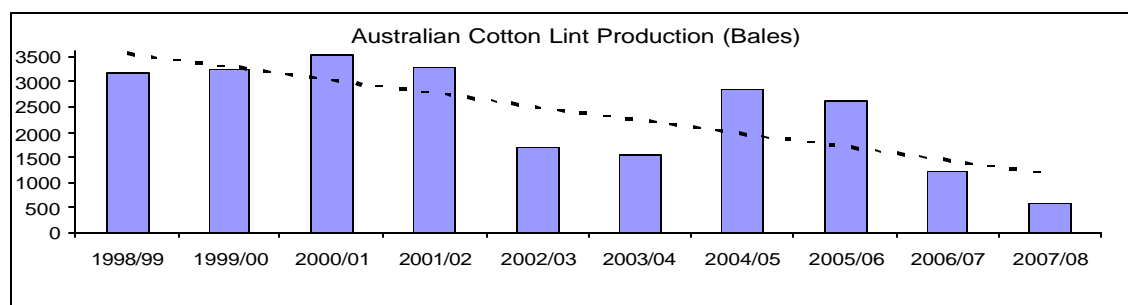
Post anticipates a return to more normal weather conditions, and subsequent improved water availability, will remain the primary driver for increased cotton plantings.



Source: ABARE (July-June)

Production

Total cotton production for 2009/10 is forecast at 1.9 million bales, up sharply on the previous year. This would roughly equate to 414 TMT using a conversion factor of 4.593. Despite this increase, total cotton production is forecast to remain under the ten-year-average of 2.4 million metric bales, established using historical data.



Source: ABARE Data (July-June)

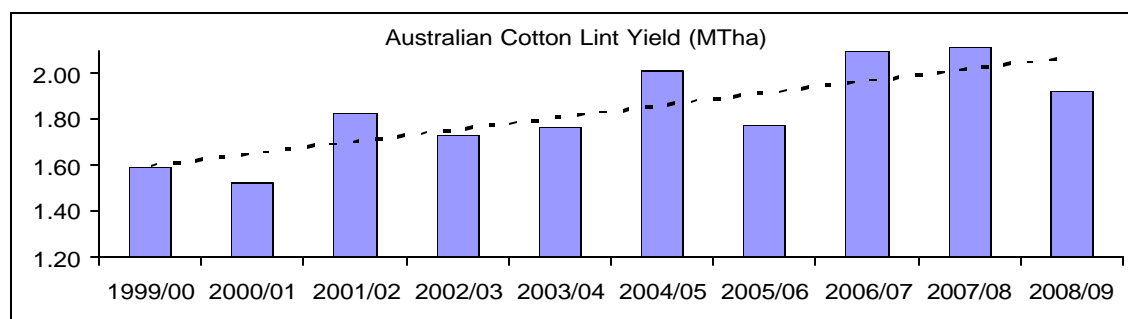
A Recently released ABARE forecast puts the 2009/10 crop at around 2.27 million bales, however according to industry sources this forecast seems optimistic. The ABARE forecast

relies on improved export demand and improved prices driving increased plantings and effectively displacing other crops. At time of writing this report, cotton prices remain well below year previous.

Post has revised estimated production for 2008/09 upwards slightly to 1.45 million bales. Above average rainfall in December and January improved yields beyond previous expectations. Area and exports remain unchanged.

Yield

For 2009/10 post has assumed a yield of 8.6 bales per hectare, down slightly on the 8.8 bales per hectare assumed for the previous year. If achieved, this yield would be considered slightly above the five-year-average of 8.0 bales per hectare. Industry sources suggest that the widespread adoption of GM technology is likely to support average to above average yields going forward.



Source: ABARE Data

Exports

Total cotton exports for 2009/10 are forecast to increase sharply to 1.55 million bales. Improved production driven by an assumed return to normal weather conditions is expected to see exports increase significantly.

Post advises that traditionally the Australian cotton industry processes and exports cotton in the marketing year following the year in which it is grown. More recently however, severe drought has seen cotton production decline sharply and as a result, a greater proportion of cotton is now processed and exported in the same marketing year as it is grown. As a result, post has exports rising in line with production for 2009/10.

Policy

The Western Australian (WA) State Government has lifted the moratorium on the commercial production of genetically modified (GM) cotton. This will likely be a significant development for the Ord River Irrigation Area (ORIA) in the state's north.

Cotton was previously grown in the ORIA in the 1960's but was discontinued due to severe insect and pest problems. The availability of GM cotton will likely see cotton grown in the ORIA sometime in the foreseeable future. According to industry experts, the major challenge will be to produce enough cotton to sustain processing operations. However, the WA government recently also announced plans to expand the ORIA by 14,000 hectares.

GM cotton could become a major new profitable industry for WA. A report released last year by the (previous)state government-appointed reference group on GM crops estimated that GM cotton could be worth more than \$50 million a year to the East Kimberley region, generating more than 200 full-time jobs. ([Report # AS8056](#))

Post will continue to follow this development with interest over the longer term. The ORIA has abundant water resources and is the closest potential cotton growing region to Indonesia, Australia's second largest market.

RECENT REPORTS FROM FAS/CANBERRA

The reports listed below can all be downloaded from the FAS website at:
<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
AS9016	Sugar Annual	04/02/09
AS9015	Grain and Feed Annual 2009	03/20/09
AS9014	Stone Fruit Annual 2009	03/13/09
AS9012	Agricultural Economy and Policy Report	03/12/09
AS9010	Livestock Semi-Annual	03/06/09
AS9009	Government Announces A\$32m Research into Soil Carbon & Emissions	03/06/09
AS9008	Wine Annual 2009	03/05/09
AS9007	New Import Conditions for Chicken Meat Finalized	03/05/09
AS9006	Cotton Quarterly Update – March	02/20/09
AS9005	Agricultural situation 2009	02/11/09
AS9004	Govt. announces A\$9 million boost to wood export industries	01/29/09
AS9003	February Grain Lockup	01/29/09
AS9002	New Support for Wheat Exporters to Develop Markets Announced	01/27/09
AS9001	Australian Government Announces Food Production Grants Programs	01/23/09
AS8061	Recent Weather & Crop Impact	12/29/08
AS8060	Dried Distillers Grain	12/29/08
AS8059	Wine	12/08/08
AS8058	December Grain & Feed Update	12/03/08
AS8057	Cotton Quarterly Update	11/26/08
AS8056	Western Australia lifts ban on GM Cotton	11/25/08
AS8055	Fresh Deciduous Fruit Annual	11/21/08
AS8053	Citrus Annual	11/14/08
AS8052	November Grain Lockup	11/03/08
AS8051	Final IRA for Chicken Meat released by Biosecurity Australia	10/31/08
AS8049	Dairy Annual 2008	10/20/08
AS8048	Grain and Feed October Update 2008	09/26/08
AS8047	Sugar Semi-Annual	09/26/08
AS8046	Exporter Guide	09/15/08
AS8044	FAIRS Export Certificate Report	09/04/08
AS8043	2008 September Voluntary Grain Report	08/28/08
AS8041	Cotton Quarterly Lock-up	08/27/08
AS8040	Competitiveness of Grocery Pricing in Australia Investigated	08/20/08